

## Message Text

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64

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AGR-10 SP-02 AID-05 EB-07 NSC-05

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FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 8881

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USMISSION GENEVA

USMISSION OECD PARIS

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TAGS: EFIN, ETRD, EALR, FI

SUBJECT: FINLAND'S ECONOMIC SITUATION AND TWO DIOGNOSES OF  
REASONS FOR EXPORT WEAKNESS

REF: HELSINKI 1439

1. SUMMARY: THE MINISTRY OF FINANCE HAS RELEASED A GLOOMY  
PROGNOSIS OF THE COURSE OF THE ECONOMY FOR THE REST OF  
1975. THE LACK OF IMPROVEMENT IN THE ECONOMY HAS SPURRED  
DISCUSSION OF THE CAUSES OF WEAKNESS IN FINLAND'S EXPORTS.  
WHILE CONSUMER GOODS IMPORTS ARE NOT MAJOR FACTORS, EFFORTS  
TO REDUCE THEM ARE BEING UNDERTAKEN BY THE GOVERNMENT --  
SO FAR MAINLY BY EXHORTATION. END SUMMARY.

2. IN ITS HALF-YEAR ECONOMIC TRENDS REPORT, JUST PUBLISHED,  
THE MINISTRY OF FINANCE IS GLOOMY ABOUT THE PROSPECTS FOR  
THE BALANCE OF 1975. IT SEES SIGNS THAT RECESSION IS  
SPREADING BEYOND THE FOREST PRODUCTS INDUSTRY, WHICH HAS  
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EXPERIENCED WEAKNESSES IN BOTH EXPORT AND HOME MARKETS.

IT FORESEES A DECLINE IN THE PRICE OF WOOD, AND PULP AND PAPER EXPORTS WHICH, COUPLED WITH VOLUME DECLINES ALREADY EXPERIENCED FOR MONTHS, MAY BRING TOTAL EXPORT VALUE FOR THIS YEAR EVEN BELOW LAST YEAR'S LEVEL, DESPITE WORLD-WIDE INFLATION. LOOKING BACK TO THE BEGINNING OF 1974, THE MINISTRY ECONOMISTS POINT OUT THAT THE CURRENT ACCOUNT DEFICIT IN 1974 AND 1975 SEEMS SURE TO BE WELL ABOVE FMK 10 MILLION. DOMESTIC PRICES WILL PROBABLY BE UP 35 PERCENT IN THE TWO-YEAR PERIOD WHILE VOLUME OF PRODUCTION WILL BE UP ONLY 3 OR 4 PERCENT, WITH NONE OF THAT LOW INCREASE ACCOUNTED FOR BY 1975 PRODUCTION.

3. FINLAND'S BALANCE OF PAYMENTS PROBLEMS ARE CLEARLY NOT PRIMARILY THE RESULT OF CONSUMER GOODS IMPORTS. FINAL CONSUMPTION GOODS ACCOUNT FOR ONLY 13 PERCENT OF FINLAND'S IMPORTS. NEVERTHELESS, SEVERAL CAMPAIGNS ARE NOW IN OPERATION TO REDUCE THE DEMAND IN FINLAND FOR IMPORTED CONSUMER GOODS. THE 1975 NATIONAL BUDGET ALLOCATES ONE MILLION FINNMARKS FOR THE PROMOTION OF CONSUMPTION BY FINNS OF FINNISH-MADE GOODS. FINLAND'S FOUR LARGE RETAIL COOPERATIVES (KESKO, OTK, SOK AND TUKO) AGREED THE FIRST WEEK IN JULY TO STOP IMPORTING ABOUT 60 EXOTIC FOODS. MINISTER OF INDUSTRY AND COMMERCE ARVO RYTKONEN EMPHASIZED LAST WEEKEND AT A MEETING OF THE FINNISH RETAIL ASSOCIATION THAT FINNISH MERCHANTS COULD SAVE CONSIDERABLE QUANTITIES OF FOREIGN EXCHANGE IF THEY WOULD NOT FAVOR IMPORTED PRODUCTS IN THEIR DISPLAYS AND SALES EFFORTS. MINISTER RYTKONEN STRESSED THAT IT WAS TIME FOR FINLAND TO GIVE UP ITS UNNECESSARY PREFERENCE FOR IMPORTED GOODS.

4. THERE ARE TWO MAIN THEORIES BEING AIRED CONCERNING THE NATURE OF FINLAND'S CURRENT BALANCE OF TRADE PROBLEMS. ONE THEORY MAINTAINS THAT FINLAND IS THE VICTIM OF A CYCLICAL WEAKNESS IN EXPORT DEMAND; THE OTHER THAT FINLAND SUFFERS FROM STRUCTURAL WEAKNESS IN ITS INTERNATIONAL COMPETITIVENESS, I.E. FINNISH EXPORT PRICES ARE TOO HIGH. MAX JACOBSON, HEAD OF THE CENTRAL FREE-ENTERPRISE ASSOCIATION EVA, RECENTLY ENDORSED THE UNCLASSIFIED

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FIRST EXPLANATION WHEN HE CLAIMED THAT A DEVALUATION OF THE FINNMARK WOULD BE THE WRONG MEDICINE AT THE WRONG TIME. FINLAND'S TRADE PROBLEMS ARE NOT THE RESULT OF HIGH PRICES FOR FINNISH GOODS, BUT RATHER THE RESULT OF A WEAKNESS IN DEMAND IN IMPORTANT FOREIGN MARKETS, HE SAID. THE COURSE FOR FINLAND, AS HE SEES IT, IS TO WAIT PATIENTLY FOR THE UPSWING IN EXPORT DEMAND WHICH WILL BRING THE NEEDED EQUILIBRIUM IN FOREIGN

TRADE. JACOBSON ALSO STATED THAT THE GOVERNMENT AND PARLIAMENT MUST ACT TO IMPROVE THE BALANCE OF TRADE.

5. ON THE OTHER HAND, JUHANI RISHMAKI, ASSISTANT MANAGING DIRECTOR OF THE ASSOCIATION OF FINNISH INDUSTRIES, CLAIMED IN A SPEECH THIS WEEK THAT FINNISH EXPORTS ARE SUFFERING BECAUSE OF THEIR HIGH PRICES. RISHMAKI FEELS THAT FINLAND'S DOMESTIC INFLATION (CURRENT ANNUAL RATE OF 18 PERCENT) IS CAUSING A SERIOUS EROSION OF FINLAND'S INTERNATIONAL COMPETITIVENESS. NOT ONLY ARE FINNISH PRICES HIGH IN WESTERN MARKETS, BUT FINLAND'S SPECIAL POSITION IN EASTERN MARKETS APPEARS TO BE THREATENED. THE SOVIETS ARE VERY PRICE CONSCIOUS AND THEY HAVE RETURNED SOME FINNISH OFFERS BECAUSE THEY WERE CONSIDERABLY TOO HIGH. LOSS OF COMPETITIVENESS IN THE USSR WOULD BE ESPECIALLY SERIOUS, BECAUSE OF FINLAND'S NEED TO PAY THE HIGH BILL FOR SOVIET OIL.  
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